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UNCLAS SECTION 01 OF 03 PHNOM PENH 001201

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SUBJECT: CAMBODIA'S LABOR AND COMMERCE MINISTERS DOING
LITTLE TO PREVENT JULY 3 STRIKE

REF: PHNOM PENH 1199 AND PREVIOUS

1. (SBU) SUMMARY. During separate June 28 meetings with the Ministers of Commerce and Labor, the Ambassador relayed embassy efforts to encourage both unions and garment manufacturers to negotiate a resolution to the general strike threatened for July 3 and urged the government to do everything possible to avoid a strike. Neither ministry has taken a particularly active role in preventing the strike, though the Ministry of Labor and Vocational Training distributed leaflets urging workers to negotiate rather than strike. The Commerce Minister complained about union irresponsibility and enumerated factors that hamper garment sector competitiveness: long lead times, lack of vertical integration, and theft. The Labor Minister described longer-term plans to increase respect for the Labor Law and possibly revise it. END SUMMARY.

Commerce Minister: Irresponsible Unions

2. (SBU) Cambodia's unions are irresponsible, the Minister of Commerce asserted. The Labor Law allows just three people to start a union, and as a result, there are 900 factory-level unions for Cambodia's 270 garment factories. Vulnerable female factory workers, many from poor rural communities, are sometimes harassed and threatened by union leaders, or forced to pay bribes to secure a factory job, Cham Prasidh said. Some unions organize illegal strikes, threaten workers with violence if they do not participate, and intimidate workers into joining the union. Unions don't care if their actions lead to factory closures and unemployment.

3. (SBU) In response to the Ambassador's suggestion that the government should take a firmer approach to ensuring that both unions and employers comply with the Labor Law, the Minister remarked that the government has better success cracking down on misconduct by factories than by unions. If the Arbitration Council rules that a worker was wrongly terminated, for example, the Minister can threaten to ban the factory's exports for up to three months if the worker is not reinstated. But there is no enforcement mechanism in place to ensure union compliance with the Labor Law, although the government has asked the International Labor Organization (ILO) for help in creating a sanction system for union misconduct.

Commerce Minister: General Strike Likely

14. (SBU) The threatened July 3 strike is unlikely to be postponed or called off, Cham Prasidh said. He predicted that just a few workers at each factory will participate, but these workers could prevent others from entering the factory. If the strike spills into a street demonstration, there could be violence, he warned.

15. (SBU) The general strike is motivated more by the FTU's political agenda, the Minister remarked, than by purely labor concerns. After all, the Labor Advisory Committee (LAC) is about to reconvene after two years of inactivity, and the FTU could raise issues there. (Note: Because the FTU walked out of a recent meeting to select union representatives for the LAC, no FTU members were selected to be on the committee. End Note.) Other unions are willing to negotiate, but Chea Mony feels like his union has little influence over the government, so he wants to create a scene to demonstrate the worker's power, Cham Prasidh insisted.

16. (SBU) The Ambassador urged the Minister to do everything possible to help avoid a strike and asked if the Minister had spoken directly with Chea Mony or other labor leaders. The Minister said that he had not spoken with Chea Mony about the planned strike, and remarked that this was the responsibility of the Ministry of Labor and Vocational Training.

Commerce Minister: Cambodia's Garment Industry Faces Multiple Threats

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17. (SBU) Cambodia's garment industry faces several other threats, the Commerce Minister noted. Some factories have reported that their garments are being stolen by employees and sold in Phnom Penh markets months before they are due to hit the shelves in the US. Some buyers are concerned about this threat to their intellectual property rights, and in fact Banana Republic has stopped placing orders in Cambodia for this reason. To combat this problem, the Ministry may announce that any export-only goods found at local market will be seized.

18. (U) Cambodia also suffers from longer lead times and less vertical integration than its competitors, Cham Prasidh said. Whereas the time from when the order is placed until it arrives on shelves is 50 to 55 days in China and 60 to 65 days in Vietnam, in Cambodia this takes 90 to 95 days. Getting an agreement on nightshift wages would help to reduce this inefficiency. Retail prices for clothing have dropped 30%, Prasidh commented, and garment buyers expect manufacturers to cut production costs. In other countries, where the garment industry is more vertically integrated, there are more opportunities to cut costs--at fabric production, cutting, sewing, etc. In Cambodia, where all of the inputs are imported, cutting these costs is extremely difficult.

19. (U) Finally, the Commerce Minister predicted that Vietnam's entry into the World Trade Organization at the end of the year will "suck two-thirds of Cambodia's factories out of the country." In response to this and other economic threats, the Prime Minister recently decided to extend garment factories' tax holiday by an additional two years. However, passage of the proposed TRADE Act by the US Congress will be critical to the survival of Cambodia's garment industry.

Labor Ministry Distributing Anti-Strike Leaflets, Working on Medium-Term Solutions

¶10. (U) After thanking the embassy for its prominent role in promoting labor dialogue and worker's rights, the labor minister began by noting that some of the workers' demands--like higher wages for teachers and lower gasoline prices--were outside the purview of his Ministry. He re-affirmed the unions right to strike, but said that they needed to understand unions' and factories' common interest in promoting stable labor relations.

¶11. (U) The MOLVT has distributed leaflets to garment factories urging workers not to strike, the Labor Minister said. He also noted that lack of understanding of the Labor Law was one factor behind the strike, and said that the MOLVT was hoping to address this issue through training for workers and unions. The Ministry is also in the process of re-forming the Labor Advisory Council, and expects this re-convened body to play a major role in mediation. The Ministry is considering proposing amendments to the Labor Law, he noted, but did not specify what type of amendments were under consideration.

¶12. (SBU) The Ambassador responded by noting that government engagement in this issue was crucial, and that the worst possible response would be for the government to wash its hands of the issue. Cambodia has made remarkable economic and political progress in recent years, and it would be unfortunate if this general strike frightened investors and garment buyers away. Unscrupulous unions--like the Khmer Youth Federation--and unscrupulous factories are a particular threat. There is a lot of distrust and misunderstanding between unions and factory owners now, and the government can play an important role in bringing the two sides together.

¶13. (U) Vong Soth noted that while he couldn't guarantee that the unions would be patient enough to wait for the results, the government commitment to labor issues demonstrated by the MOLVT's efforts would help improve labor dialogue.

¶14. (SBU) COMMENT. Taking their cues from the Prime Minister's studied inattention, the Ministers of Commerce and

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Labor have done surprisingly little about a general strike that the government readily concedes is likely to turn violent. Instead, the Commerce Minister used most of the meeting to air old but valid complaints about how unscrupulous unions, inefficient factories, and intense competition from other countries threaten the Cambodian garment industry. Meanwhile, the Labor Minister focused on initiatives like reconvening the Labor Advisory Council, increasing awareness of the Labor Law, and possibly introducing revisions to the Labor Law, that could help labor relations in the medium term but will have no impact on the strike threatened to start in just a few days. END COMMENT.
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